Plan Sponsor OUTLOOK

A Resource on Current Retirement Topics

Fourth Quarter 2020

Women and Retirement: Expectations Met or Missed?

As of late March 2020, the number of Americans expressing confidence in their ability to live comfortably in retirement was at near-record highs. Of course, since that time pandemic-related market flux may have changed the numbers. Because many surveys covering retirement are conducted only once a year, with results released several months after the information is gathered, we won't fully understand the impact on retirements for some time.

Still, one study conducted early in 2020, the 30th Annual Retirement Confidence Survey conducted by the Employee Benefits Research Institute (EBRI) and discussed in their Issue Brief dated June 8, 2020, provides some interesting information. Companies striving to help women achieve a secure retirement may be particularly interested.

Women face different challenges in saving

While overall retirement confidence was high, women expressed less confidence in their future retirement security than their male counterparts. The problems women face in preparing for retirement tend to be different than are those of working men, the study says. Often, women earn less than men do, they take breaks from the workforce to handle parenting and other family responsibilities, and they often live longer.

Differences also evident by marital status

The results may be further broken down by marital status. Among married working women, 76% said they are very or somewhat confident they will have enough money to retire comfortably. In comparison, 43% of divorced women and 51% of never-married women expressed the same level of confidence. The disparity seems to also be due, at least in part, to lower levels of assets held by each group. About 72% of divorced women reported less than $25,000 in retirement assets, compared to 54% of never-married women. Add debt to the equation — where 74% of divorced women and 67% of never-married women said debt is a problem — and it's easy to see why women are less confident.

To help close the confidence gap, EBRI suggests that more specialized information and help planning for retirement, and even with everyday financial issues, is needed. Women who are dealing with the financial fallout of a divorce or the death of a spouse may need particular attention. When reviewing your service providers, this could be a good topic to explore. How do the provider's communication materials address the varying situations faced by your workforce? Can the materials be targeted to different groups? By working together to find these answers, the gaps may start to shrink.

Read more at https://tinyurl.com/EBRI-2020-RCS.

SECURE Act Changes Loom

Check these items off your to-do list

Remember 2019? It was in December of that year (which seems very long ago now) that the SECURE Act was signed into law.

Today, as COVID-19 continues raging around the world, the SECURE Act may have slipped off your radar in favor of other pressing issues. But make no mistake, it is still out there — and it does require your attention. In general, plan sponsors have until the last day of the 2022 plan year (December 31, 2022, for calendar-year plans) to adopt the amendments required by the Act. However, operational compliance is required during the period between the actual plan amendment date and the effective date for the Act's required changes.

Here are just two of the items that will need the attention of 401(k) plan sponsors. Because many of the words and phrases in this article have specific legal meanings, please consult the plan's attorney to be sure your plan will be compliant with these and other provisions of the Act.

Eligibility for long-term part-timers

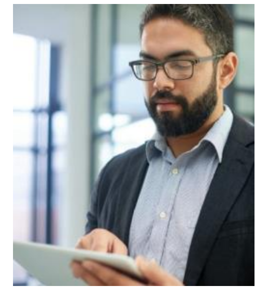
In the decades prior to the SECURE Act, plans could set a year of service for eligibility purposes at a minimum of 1,000 hours worked during a plan year. Under the SECURE Act, the required hours have been reduced. Employees who are at least 21 years old and who work at least 500 hours in three consecutive 12-month periods must be allowed to make salary deferrals in the 401(k) plan. The definition of a year of vesting service is also changing to reflect the 500-hour minimum, rather than the former 1,000 hours in a plan year requirement. These rules become effective for plan years that begin after December 31, 2020.

While these long-term, part-time employees will be able to make salary deferrals, they are not required to be included in employer matching contributions or other contributions from the employer.

This is a forward-, not backward-looking, provision. Sponsors should start tracking the hours of their part-time staff for the plan year beginning after December 31, 2020. Workers who accumulate at least 500 hours of service during the first, second and third years after that date must be allowed to begin salary deferrals in the plan during the subsequent plan year. For a calendar year plan, then, deferrals would be allowed during the 2024 plan year from employees with at least 500 hours of service in 2021, 2022 and 2023.

It is worth noting that employees included in the plan only because of this provision—those with less than 1,000 hours of service — do not need to be included in the plan's nondiscrimination tests, including top-heavy testing. As before, employees with at least 1,000 hours of service and who meet the plan's age requirement must be included in the tests.

Lifetime income disclosures



Along with disclosures about vesting status and investments, plans will soon be required to include a new disclosure about lifetime income. To meet this requirement, the disclosure must describe the participant's balance in terms of a monthly annuity that could be purchased with the participant's account balance. By December 20, 2020, the U.S. Department of Labor (DOL) expects to release interim rules, including a model disclosure statement and assumptions on which the annuity figure should be based. As long as the disclosure meets legal requirements, the plan and its fiduciaries will be protected against liability arising from it. Expect the first disclosure to be required 12 months after the DOL issues its interim rules, likely sometime during 2021.

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	www.irs.gov/ep
Department of Labor, Employee Benefits Security Administration	www.dol.gov/ebsa
401(k) Help Center	www.401khelpcenter.com
BenefitsLink	www.benefitslink.com
PLANSPONSOR Magazine	www.plansponsor.com
Plan Sponsor Council of America	www.psca.org
Employee Benefit Research Institute	www.ebri.org

COVID-19 Resources

Society for Human Resources Management	https://www.shrm.org
IRS Coronavirus Relief Questions and Answers	https://tinyurl.com/IRS-FAQs-Coronavirus
International Foundation of Employee Benefit Plans	https://www.ifebp.org
Thomson Reuters	https://tax.thomsonreuters.com

Plan Sponsors Ask...

Q: *Early in the pandemic, we were very concerned that employees would take as much money as they could out of our 401(k) plan. That didn't happen. How have other companies (and their plans) fared?*

A: Your experience seems similar to what others have experienced. A survey conducted jointly by Commonwealth and the Defined Contribution Institutional Investment Association's Retirement Research Center found that participants with low-to-moderate incomes did not withdraw significant amounts from their retirement plan accounts. Their research showed that just 5% had taken a withdrawal as of June, with 7% saying they planned to do so later. Instead of plan withdrawals, respondents said they had paused or stopped contributing to the plan (10%), stopped paying bills (8%), borrowed money from friends or family (7%), or sold possessions (7%). The survey's published results (https://tinyurl.com/DCIIA-June2020) make suggestions about ways employers and providers can help low-to-moderate income employees. For example, they suggest reminding employees about financial wellness resources, and offering highly liquid emergency savings accounts that can help with expenses during a crisis.

Q: *We plan to add socially conscious investments to our 401(k) plan menu, and we're wondering if there is anything special we should know about how to choose the right ones.*

A: In selecting any investment, socially conscious or otherwise, the key phrase is the same one you should apply to any decision for your plan: process documentation. Whether you're selecting an investment, a provider, or anything else, it's always smart to document how you arrive at your decisions, because it can be used as evidence that your process is sound — even if the results aren't what you hoped they would be. Interestingly, there is some discussion recently about the DOL requesting lots of documentation from plan sponsors to justify their socially conscious investment choices (see https://tinyurl.com/BloombergSRG). Plan sponsors have been asked for as many as 13 types of support documents in the process, according to the cited article. We suggest that you talk to your plan's investment professional about documenting your selection process. By carefully crafting an Investment Policy Statement, for example, you should be able to handle any inquiries that come about as you add socially conscious funds to your lineup.

Q: *One of our workers wants to designate his children, rather than his wife, as beneficiaries of his 401(k) plan accounts. He is required to sign the documents in front of a live witness, but because of COVID-19, he is concerned about doing so. What can we do?*

A: The Internal Revenue Service recently issued a Notice, #2020-42, addressing this concern. The Notice provides temporary relief from the "in-person" requirement for witnessing a participant signature on this kind of document. It applies to participant elections made between January 1 and December 31, 2020. Under normal circumstances, the signature of the employee must be witnessed in person by a plan representative or a notary public. But temporarily, the requirement can be met, in the case of a notary, by using live audio-video technology. If the signature is to be witnessed by a plan representative, there are additional requirements, such as requiring that the participant present a valid photo ID during the live video conference. More conditions apply, so it is important to understand the temporary rules. The Notice can be found at https://www.irs.gov/pub/irs-drop/n-20-42.pdf. You may wish to discuss it with the plan's attorney, too, because if the signing does not meet the requirements, it could be invalid. That could cause trouble for the plan and its fiduciaries, not to mention significant complications of the payout upon the participant's death.

Pension Plan Limitations for 2021

401(k) Maximum
Participant Deferral.......... $19,500*
**$26,000 for those age 50 or older, if the plan permits*

Defined Contribution Maximum
Annual Addition...............$58,000

Highly Compensated
Employee Threshold........ $130,000

Annual Compensation
Limit $285,000

Plan Sponsor's Quarterly Calendar

January

- Send payroll and employee census data to the plan's recordkeeper for plan-year-end compliance testing (calendar-year plans).
- Audit fourth quarter payroll and plan deposit dates to ensure compliance with the DOL's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between October 1 and December 31 received and returned an enrollment form. Follow up for forms that were not returned default investment alternative.

February

- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar-year plans). Remember that if the plan holds employer stock, bond coverage is higher than for nonstock plans.
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure that each fiduciary understands his or her obligations to the plan.
- Provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during prior quarter, within 45 days of end of last quarter.

March

- Begin planning for the timely completion and submission of the plan's Form 5500 and, if required, a plan audit (calendar-year plans). Consider, if appropriate, the DOL's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current.

Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.

Longevity
CAPITAL MANAGEMENT LLC

Terri McGray, CFP®, AIF®
President
Longevity Capital Management LLC
515 Marin Street, Suite 418
Thousand Oaks, CA 91360
Office: 805-917-6771
Fax: 805-601-7024